

**Statement of Niels M. Johnsen
Chairman of the Board
Central Gulf Lines, Inc.
and
Waterman Steamship Corporation**

**Before the
Coast Guard and Maritime Transportation Subcommittee
of the
Transportation and Infrastructure Committee
United States House of Representatives**

STATUS OF U.S. FLAGGED VESSELS IN U.S. FOREIGN TRADE

July 20, 2010

Mr. Chairman and Members of the Committee:

As the Chairman of Central Gulf Lines, Inc. (Central Gulf) and Waterman Steamship Corporation (Waterman), I appreciate the opportunity you have provided today to address the U.S.-flag merchant marine's ability to compete with foreign-flagged vessels in international commerce. Central Gulf and Waterman are both American-owned, United States-citizen companies, and as such, are more commonly referred to as "Section 2" citizens. Central Gulf and Waterman currently operate 13 U.S.-flag commercial vessels in the international and domestic trades that provide a wide-range of oceangoing commercial freight transportation services, including pure car/truck carriers (PCTC) and domestic coastwise services. Central Gulf and Waterman have also provided from their inception sealift support to the Department of Defense (DoD) for its global military operations. Our U.S.-flag vessels and the dedicated crews that serve on those vessels proudly, willingly, and without hesitation, have delivered vital military equipment, supplies and other materiel into war zones and other hostile areas in direct support of DoD operations including Korea, Vietnam, Operation Desert Shield/Storm, Operation Enduring Freedom in Afghanistan, and Operation Iraqi Freedom.

Mr. Chairman, at your hearing on March 17, 2010, you observed that you "would certainly hope that as we work to expand U.S. exports, we also work to formulate a meaningful U.S. maritime policy that will revitalize our merchant marine and expand the percent of U.S. trade carried in U.S. ships." We agree with your observation, and we, therefore, recommend several specific initiatives.

At the outset, I would like to address a program that has and is currently serving its intended purpose, the Maritime Security Program (MSP). MSP must be a key component of any future maritime policy. MSP is the most cost effective means to ensure that DoD has the access it requires to commercial U.S.-flag shipping and U.S. merchant mariners for the Nation's economic and military security. In fact, when Congress last considered reauthorization of MSP,

General John W. Handy, then Commander in Chief of the U.S. Transportation Command (TRANSCOM), stated in testimony before the House Armed Services Committee, “We simply cannot, as a Nation, fight the fight without the partnership of the commercial maritime industry.” Moreover, the Office of Management and Budget (OMB) has recently given MSP the highest possible ratings under its program assessment review for program purpose and design, planning, management, and overall results.

MSP has proven to be a fundamental element of the U.S. maritime transportation system, providing an active, privately-owned, U.S.-flag and U.S.-crewed fleet of militarily-useful commercial vessels in international trade which are available to support the sustainment of the U.S. armed forces in a contingency. MSP was established by the Maritime Security Act of 1996 and originally provided for the participation of 47 U.S.-flag commercial vessels. Subsequently, due to the success of this program and the strong support of Congress and our partners at the Departments of Transportation and Defense, the program was reauthorized and expanded to 60 ships in 2005. With the expansion of the program by 13 ships, Congress specifically provided that priority must be given to “Section 2” citizen, American-owned companies for vessels enrolled in MSP. As “Section 2” citizen companies, Central Gulf and Waterman strongly supported that priority requirement and urge Congress to continue providing priorities in this and other maritime programs for “Section 2” citizens. Mr. Chairman, if we are going to achieve your goal of revitalizing the American merchant marine, we need to place special emphasis on doing so with American-owned companies.

Of the 60 U.S.-flag vessels currently in MSP, Central Gulf has enrolled four state-of-the-art PCTCs, and Waterman has enrolled two state-of-the-art PCTCs and two self-sustaining container vessels. So, collectively, our companies have eight ships in MSP. These Central Gulf and Waterman vessels include some of the newest and largest roll-on/roll-off vessels in the U.S.-flag fleet. As a result of ramp capabilities and variable spacing of movable interior deck heights, our vessels can accommodate a significant number of large military vehicles and aircraft. Our vessels can quickly transport large quantities of such equipment and other materiel when and where needed by U.S. armed forces around the world.

Mr. Chairman, we are pleased that the House of Representatives has demonstrated its continuing support for MSP by voting in this Congress to extend the program. We look forward to working with you and other members to ensure that the extended program provides for the participation of “Section 2” citizen American owned companies, to ensure that program payments equalize the operating cost of U.S. flag vessels with foreign flag vessels in international commerce, and to provide for the continued full complement of U.S. flag vessels in the program that are required to support the national and economic security of the United States.

As a complement to MSP, DoD must continue to abide by its long-standing “commercial first” policy to provide military cargo to privately-owned U.S.-flag vessels when available in lieu of government owned or controlled vessels. This policy has resulted in military cargo support for the U.S.-flag fleet, and we strongly urge DoD to continue its vigilant compliance with this essential policy.

If MSP is reauthorized and funded at a level to equalize the cost of operating U.S. flag with foreign flag vessels, it will be necessary to continue our efforts to remove trade barriers that exclude or limit U.S. flag companies' access to certain international markets. As you know, the United States has one of the most open markets in the world. Yet, regrettably, many of our trading partners do not reciprocate our "open door" policy.

Over the last twenty years, we have, on a limited basis, with the help of Congress, the Maritime Administration, the Federal Maritime Commission, the Department of Commerce, and the U.S. Trade Representative, gained access to certain previously-closed markets for U.S. flag vessels. If the United States truly wants to revitalize its merchant marine, we need to work with the Congress and the Administration to eliminate unfair and anti-competitive trade practices throughout the world. With an adequate reauthorized MSP, all of my colleagues in the United States merchant marine are prepared to compete effectively in the world market, but we must have access to markets which are currently not fully open to us. We stand ready to work in a collaborative fashion with all facets of the Federal government, particularly the United States Trade Representative, in a sustained effort to eliminate trade barriers wherever they exist around the world.

Mr. Chairman, in addition to facing unfair trade practices abroad, U.S.-flag vessels operating in international trade are forced to compete against foreign-flag vessels whose owners pay little or no taxes. While the tax climate for U.S. vessels has improved through Congressional enactment of the "tonnage tax", we recommend two additional improvements that would be helpful in order to further reduce the tax advantages enjoyed by our foreign competition.

First, we would recommend adoption of legislation that would put our American mariners on an equal tax footing with other U.S. citizens working outside the United States. We would propose that American mariners who are often at sea and away from home for much of the year be treated for tax purposes like American expatriates working overseas where the first \$80,000 of their income is not subject to tax in the United States. This change in the law would make tremendous strides towards equalizing the tax treatment for American mariners.

Second, we would also recommend that changes be made to the Capital Construction Fund (CCF) program, administered by MarAd, that would incentivize U.S.-flag shipowners to repair their ships in United States shipyards. Congressmen Artur Davis of Alabama and Charles Boustany of Louisiana, as members of the House Ways and Means Committee, have introduced legislation that would allow funds to be withdrawn on a tax-free basis from a CCF account to be used for the maintenance and repair of U.S.-flag vessels in shipyards located in the United States. This legislation is broadly supported by U.S.-flag carriers, the Shipbuilders Council of America, and maritime labor, and would provide much needed employment at shipyards throughout the country.

Finally, while we are working towards a new maritime policy for this country, we must not lose sight of the importance of a number of existing Federal programs that provide U.S.-government cargoes for U.S.-flag vessels. First, the Cargo Preference Act of 1904 requires that all U.S. military cargo be transported on U.S.-flag vessels. Also, Public Resolution 17 requires

that all cargoes generated by the Export-Import Bank (Ex-Im Bank) be shipped on U.S.-flag vessels. Finally, the Cargo Preference Act of 1954, as amended by the Food Security Act of 1985, requires that at least 75 percent of government-impelled agricultural cargoes under certain foreign assistance programs must be carried on U.S.-flag vessels. We urge Congress to continue to fully support these maritime cargo reservation programs.

Mr. Chairman, I look forward to working closely with you on this matter of vital importance to our national and economic security. Thank you for allowing me to appear before you today.